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South Dakota Agricultural Land Values and Cash Rental Rates: 2010

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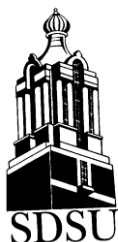
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ECONOMICS COMMENTATOR

South Dakota State University

No. 519

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2010



by
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We wish to thank the individuals who participated in the 2010 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Emmanuel Opoku for conducting the survey and inputting data and Penny Stover for maintaining the mailing list and varied survey tasks.

South Dakota's agricultural land values increased 5.2% this past year, which is the slowest rate of increase since 1996. As of February 2010, the average value of all-agricultural land in South Dakota was \$1,179 per acre. Agricultural land values increased in the northwest region and in all five regions east of the Missouri River in South Dakota, remained nearly steady in the southwest and declined in the south central region. The all-land average values are highest in the eastern regions with per-acre values ranging from \$2,712 in the east-central region to \$2,447 in the southeast region and \$2,006 in the northeast region. These are key findings from the 2010 South Dakota Farm Real Estate Market Survey completed by 238 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the twentieth annual SDSU survey designed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The information in this *Economics Commentator* provides an overview of current findings across South Dakota. We caution the reader to use this information as a general reference, and to rely on local sources for more specific details.

Respondents provided county land value and cash rental rate information by agricultural land use.

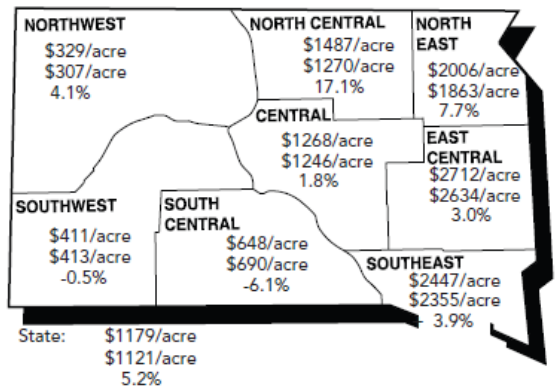
Responses, grouped by region with average values for all classes of land, are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, hayland, rangeland, and tame pasture are provided in Figures 2-4.

Average Land Value Summary

The statewide change of 5.2% is the slowest rate of increase since 1996 when land values increased 4.4% from one year earlier. From 2001 to 2008, annual increases in all-agricultural land values varied from 9.1% in 2001 to 22.5% in 2008! In 2009, all-land values increased by 7.7%. Overall, agricultural land values in South Dakota have more than doubled since 2004 and have increased five-fold since 1992.

The all-land average values are highest in the eastern regions; per-acre values there range from \$2,712 in the east-central region to \$2,447 in the southeast region to \$2,006 in the northeast region. This is the first year that all-land values averaged more than \$2,000 per acre in all three eastern regions. Per-acre increases from 2009 to 2010 varied from \$78 per acre in the east-central to \$143 per acre in the northeast region (figure 1). These three eastern regions contain the most productive land in South Dakota. Cropland and hayland are the dominant agricultural land uses in eastern South Dakota, varying from 70% of farmland acres in the northeast to 79% in the southeast.

Figure 1. Average value of South Dakota agricultural land, February 1, 2009 and 2010, and percent change from one year ago.



Regional and statewide average values of agricultural land are the weighted averages of dollar value per acre and percent change by proportion of acres of each nonirrigated land use by region.

Top: Average per-acre value—February 1, 2010
 Middle: Average per-acre value—February 1, 2009
 Bottom: Annual percent change in per-acre land value

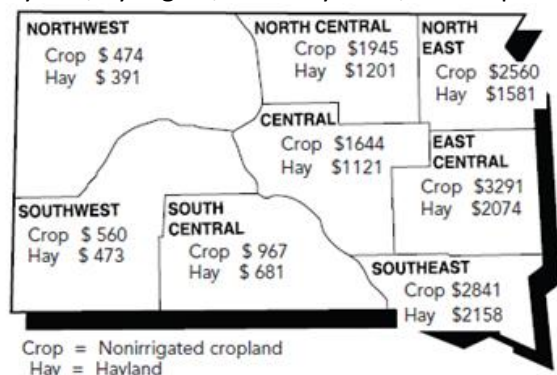
Source: 2010 South Dakota Farm Real Estate Market Survey, SDSU.

The lowest average land values are found in the northwest and southwest regions, where rangeland is the predominant land use.

In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland or tame pasture, and native rangeland. Within each region, there is substantial variation in per acre land values by use and land productivity (figures 2 and 3).

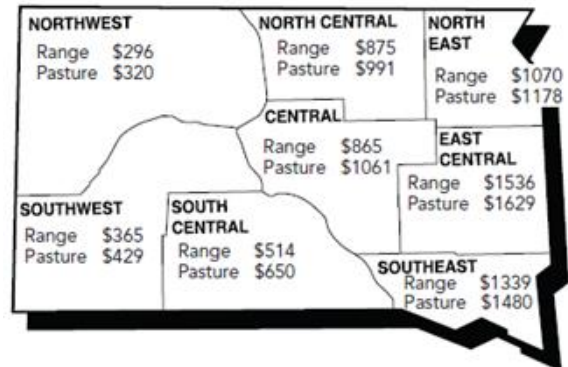
Non-irrigated cropland values in South Dakota, as of February 2010, averaged \$2,030 per acre, a 6.8% increase from one year earlier. Average values of non-irrigated cropland vary from \$3,291 in the east-central, to \$474 per acre in the northwest region (figure 2).

Figure 2. Average value of South Dakota cropland and hayland, by region, February 2010, dollars per acre.



Source: 2010 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2010, dollars per acre.



Source: 2010 South Dakota Farm Real Estate Market Survey, SDSU.

South Dakota hayland values averaged \$1,195 per acre as of February 2010, a 4.6% increase from one year earlier. Average values of hayland vary from \$2,158 in the southeast to \$391 per acre in the northwest.

In February 2010, the value of South Dakota native rangeland averaged \$540 per acre, while the average value of tame pasture was \$854 per acre. Native rangeland is concentrated in the western and central regions of South Dakota, while tame pasture is concentrated in the central and eastern regions.

The statewide average rangeland and tame pasture values changed less than 2% during the past year (Feb. 2009 to Feb. 2010). This is among the lowest annual average rate of change in the past 20 years. It is also the second consecutive year since 2001 that South Dakota rangeland and tame pasture values have increased less than 10% annually. Statewide, per-acre values of rangeland and tame pasture have more than doubled since 2003 and nearly quadrupled in per-acre value from 1995.

Average rangeland values are highest in the east-central and southeast regions (\$1,536 and \$1,339 per acre, respectively) and lowest in the southwest and northwest region (average value of \$365 and \$296 per acre, respectively). In other regions, average rangeland values vary from \$514 per acre in the south-central region to \$1,070 per acre in the northeast region.

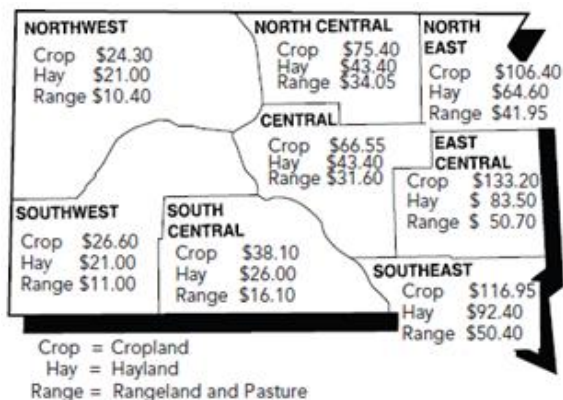
In most regions, average values of tame pasture varied from 6 to 17% higher than the average value of rangeland. However, due to differences in regional concentration, the statewide average value of tame pasture was 58% higher than the average value of rangeland. Three-fourths of rangeland acres are located in counties west of the Missouri River, compared to less than half of tame (improved) pasture acres.

In the cropland-intensive regions of eastern South Dakota and in the north-central region, the average per-acre value of nonirrigated cropland varies from 2.1 to 2.4 times the average value of native rangeland. In the more rangeland-intensive central and western regions, the average per-acre value of cropland varies from 1.53 to 1.9 times the average value of rangeland.

Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agricultural land. Cash rental rates are quite variable among South Dakota regions. Within each region, the average annual cash rental rates are highest for cropland and lowest for pasture and rangeland. Cash rental rates are highest in the east-central region for cropland and rangeland and lowest in the western regions for all land uses (figure 4).

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2010, dollars per acre.



Source: 2010 South Dakota Farm Real Estate Market Survey, SDSU.

Average cash rental rates in 2010 for nonirrigated cropland vary from \$24.30 to \$26.60 per acre in the western regions to \$133.20 per acre in the east-central region (figure 4). This is the first time that average cash rental rates for cropland exceed \$100 per acre in all three eastern regions.

Cropland cash rental rates from 2009 to 2010 increased in the north-central and the three eastern regions, were stable in the central and northwest regions, and decreased in the south-central and southwest regions. The average dollar amount of change in cropland cash rental rates varied from +\$9.40 per acre in the northeast region to -\$4.50 per acre in the south-central region. Cash rents for cropland increased between \$8 and \$17 per acre in several county clusters of eastern South Dakota.

East of the Missouri River, cash rental rates for hayland vary from an average of nearly \$43 per acre, respectively, in the central and north-central regions to \$92.40 per acre in the southeast region. West of the Missouri River, hayland cash rental rates in 2010 vary from an average of \$21.00 per acre in the northwest to \$26.00 per acre in the south-central region.

Statewide, cash rental rates for hayland increased an average of \$1.35 per acre. Slight to moderate declines occurred in the south-central and east-central regions, while cash rental rates were stable in the western regions. In the other four regions, increases varied from \$2.80 per acre in the north-central region to \$6.10 per acre in the northeast region. The amount of change in cash rental rates were more varied at the county-cluster level.

Respondents were asked to report 2010 cash rental rates per acre and per AUM on privately owned rangeland and pastureland in their locality. Average cash rental rates per acre reflect regional differences in productivity and carrying capacity of pasture and rangeland tracts. Average cash rental rates vary from \$10.45 to \$11.00 per acre in western South Dakota to just above \$50 per acre in the southeast and east-central regions.

Rangeland rates per AUM in 2010 vary from an average of \$23.20 per AUM in the northwest region to \$29.70 per AUM in the southeast region. The number of responses for AUM rates is too low to provide estimates for three regions (east-central, northeast, and north-central).

Rates of Return to Agricultural Land

The net rate of return is a return to agricultural land ownership after deducting property taxes and other land ownership expenses. Appraisers refer to the current annual net rate of returns as the market-derived capitalization rate. Average net rates of

return for 2010 varied from 3.9% for non-irrigated cropland to 3.6% for hayland and 2.7% for rangeland, and averaged 3.2% for all-agricultural land. This is the fifth consecutive year that average net rates of return were below 4.0% for all-agricultural land, compared to an average of 5.4% during the 1990s and 4.4% from 2000 to 2005. The practical range of net rates of return to land for 2010 reported by respondents varies from 2.0% to 7.0% for cropland, from 1.0% to 6.5% for hayland, and 1.0% to 5.0% for rangeland. The median net rate of return was 3.5% for cropland and 3.0% for hayland and rangeland.

For more detailed information, a full copy of South Dakota Agricultural Land Market Trends, 1991-2010, by Janssen, Opoku, and Pflueger, has been published. It may be accessed at:

<http://agbiopubs.sdstate.edu/articles/C276.pdf>

NOTE: This special edition of the *Commentator* is available electronically on our website at:

<http://econ.sdstate.edu/research/commentator/no519.pdf>

ECONOMICS COMMENTATOR

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